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Gray Drug Stores, Inc.

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Annual Report to Stockholders
for the Fiscal Year
ended June 30, 1945

GRAY DRUG STORES, INC.

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DIRECTORS

J. G. Gosling	M. M. Neubauer
Mortimer Jacobs	Adolph Weinberger
Thomas H. Jones	L. J. Wolf

OFFICERS

Adolph Weinberger.....*President and Treasurer*
Henry Gray.....*Vice-President*
Milton Neubauer.....*Vice-President*
C. W. Evans.....*Vice-President, Secretary and Assistant Treasurer*
Joseph Valins.....*Assistant Secretary*

REGISTRAR AND TRANSFER AGENT

The Cleveland Trust Co.

AUDITORS

Ernst & Ernst

Cleveland, Ohio
September 1, 1945

To the Shareholders of Gray Drug Stores, Inc.:

The annual report of Gray Drug Stores, Inc. covering the operations of the Company and its subsidiaries for the fiscal year ended June 30, 1945 is submitted herewith. The consolidated balance sheet and the consolidated statements of profit and loss and surplus have been examined by Ernst & Ernst, certified public accountants, and their opinion is attached.

Net profits for the last fiscal year after deducting all charges, including provisions for depreciation and for all federal and other taxes, were equivalent to $1.81 a share on the outstanding shares (exclusive of 8,500 shares issued June 28, 1945) as compared with $1.78 a share for the fiscal year ended June 30, 1944. Dividends aggregating $1 a share were paid in the last fiscal year. The provision for federal income and excess profits taxes for the last fiscal year was $355,370.60, as compared with $344,816.20 for the preceding fiscal year. Merchandise inventories, including merchandise in transit, amounted to $2,186,669.95 at June 30, 1945 as compared with $1,486,399.79 at June 30, 1944.

As indicated in the proxy statement recently mailed to shareholders in connection with the special meeting held on August 13, 1945, the Company has substantially expanded its operations during the past fiscal year by acquiring the capital stock of two retail drug concerns, The Mykrantz and Sons Drug Company (now Gray Drug Stores, Inc. of Columbus) and Widmann & Teah, Inc. These acquisitions have added 37 stores to the Company's retail drug chain. Pursuant to action taken at the meeting on August 13, 1945, the Company's name was changed to Gray Drug Stores, Inc.

The acquisition of the outstanding capital stock of Widmann & Teah, Inc. was financed in part by borrowing $570,000 from The Cleveland Trust Company. In order to replace this loan with a more permanent form of financing and in order to provide additional funds for possible further expansion and additional working capital, the Board of Directors is recommending the creation and sale of a new class of 20,000 shares of Convertible Preferred Stock, par value $50 a share. This program is outlined more fully in the proxy statement included in the accompanying notice of the annual and special meeting of shareholders to be held on September 25, 1945.

If you should be unable to attend this meeting we urge you to fill in, sign and return promptly the enclosed proxy so that your stock may be voted at that meeting.

Very truly yours,

ADOLPH WEINBERGER
President

CONSOLIDATED

GRAY DRUG
(name changed August 13, 1945, fr
AND SUBS
June 3

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits (includes time deposits of $22,388.13)			$ 664,519.66
Trade accounts receivable			38,938.71
Accrued interest receivable on United States Treasury Bonds			875.00
Tax stamps—state			39,544.45
Inventories—priced generally on the basis of the lower of cost (latest cost) or replacement market:			
At stores		$1,172,104.57	
At warehouses		872,775.23	
At laboratory		25,701.51	
		$2,070,581.31	
In transit		116,088.64	2,186,669.95
Postwar refund of excess profits taxes—estimated			14,539.06
TOTAL CURRENT ASSETS			$2,945,086.83
OTHER ASSETS			
United States Treasury Bonds - at cost - Note A		$ 154,500.00	
Cash surrender value of life insurance		73,136.95	
Miscellaneous receivables, deposits, etc.		19,030.35	246,667.30
FIXED ASSETS—at cost, less reserves for depreciation and amortization			
Land		$ 46,091.10	
Buildings	$ 45,825.51		
Furniture and fixtures, etc.	948,768.08		
Leasehold and leasehold improvements	370,660.61		
	$1,365,254.20		
Less reserves for depreciation and amortization	782,996.30	582,257.90	628,349.00
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 27,271.83	
Taxes		31,714.60	
Other		8,294.07	67,280.50
			$3,887,384.63

BALANCE SHEET

STORES, INC.
om Weinberger Drug Stores, Inc.)
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0, 1945

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Note payable to bank—payments maturing prior to June 30, 1946			$ 35,000.00
Accounts payable:			
Trade accounts		$ 543,087.60	
Salaries, wages and commissions		34,820.09	
Pay roll taxes		54,329.75	
Liability for employees war bond deductions		7,587.40	639,824.84
Accrued:			
Taxes (other than taxes on income)		$ 106,774.54	
Rent and interest		39,493.08	146,267.62
Federal and state taxes on income—estimated		$ 597,929.69	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)		1,000.00	596,929.69
TOTAL CURRENT LIABILITIES			$1,418,022.15
LONG-TERM DEBT			
Note payable to bank, payable in monthly installments of $5,000.00 each, beginning December 9, 1945—Note B		$ 570,000.00	
Less amounts required to be paid within one year, classified as current		35,000.00	
		$ 535,000.00	
Notes payable to others—maturing April 9, 1950—Note A		150,000.00	685,000.00
RESERVE			
For postwar adjustments and general contingencies			124,000.00
CAPITAL STOCK AND SURPLUS			
Capital stock (without par value):			
Authorized 100,000 shares			
Outstanding 98,500 shares			
Stated capital		$ 682,170.00	
Surplus:			
Capital surplus	$ 256,647.07		
Earned surplus	721,545.41	978,192.48	1,660,362.48
			$3,887,384.63

(See notes on following page.)

NOTES TO CONSOLIDATED BALANCE SHEET

GRAY DRUG STORES, INC.
(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)
AND SUBSIDIARIES
June 30, 1945

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Note A—The United States Treasury Bonds have been deposited with an escrow agent as collateral security for the notes payable to others of $150,000.00.

Note B—The loan agreement relating to note payable to bank provides, among other things, that the Company will (1) maintain consolidated net current assets of not less than $1,000,000.00 and (2) not declare or pay dividends, or make any other distribution upon any of its shares of stock outstanding at any time, if upon such action being taken the aggregate amount of such dividends and distributions, after June 30, 1944, exceeds the consolidated net earnings after June 30, 1944.

Note C—As of March 31, 1945, the Company acquired the outstanding capital stock of Gray Drug Stores, Inc. of Columbus (name at date of acquisition was The Mykrantz and Sons Drug Company) and the accounts of that company have been included since that date. On June 12, 1945, the Company acquired the outstanding capital stock of Widmann & Teah, Inc., and the accounts of that company and its subsidiary are included in the consolidated balance sheet at June 30, 1945. It is impracticable to determine the amount of net profit of this company and its subsidiary for the period from June 12, 1945, to June 30, 1945; therefore, the accompanying consolidated profit and loss statement does not include the accounts of Widmann & Teah, Inc., and its subsidiary.

Note D—The management of the Company has no knowledge of any contingent liabilities other than pending claims for personal injuries as to which, considering the nature of such claims and the amounts involved, the proceedings will not, in the opinion of the management of the Company, result in any losses of material amounts to the Company and its subsidiaries.

CONSOLIDATED PROFIT AND LOSS STATEMENT

GRAY DRUG STORES, INC.
(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)
AND SUBSIDIARIES
Year ended June 30, 1945

Net sales		$10,003,588.49
Cost of goods sold		6,807,808.14
		$ 3,195,780.35
Selling, general, and administrative expenses		2,753,065.78
		$ 442,714.57
Other income:		
Income from leasehold	$ 29,962.97	
Revenue from telephones, etc.	15,979.74	
Gain on disposal and abandonment of fixed assets—net	4,279.37	
Interest earned	1,262.31	
Miscellaneous	1,343.17	52,827.56
		$ 495,542.13
Other deductions:		
Provision for postwar adjustments and general contingencies	$ 12,000.00	
Miscellaneous	3,079.82	15,079.82
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 480,462.31
Federal taxes on income:		
Provision for current year—estimated:		
Normal income tax and surtax	$ 88,570.00	
Excess profits tax	242,000.00	
	$ 330,570.00	
Adjustment for prior year	13,514.89*	317,055.11
NET PROFIT		$ 163,407.20

Note A—Provisions for depreciation and amortization included above aggregated $86,356.45.

Note B—Reference is made to Note C to the consolidated balance sheet.

* *Indicates red figure.*

CONSOLIDATED STATEMENT OF SURPLUS

[GRAY DRUG STORES, INC.
(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)
AND SUBSIDIARIES
Year ended June 30, 1945

CAPITAL SURPLUS			
Balance at July 1, 1944			$ 135,815.44
Excess of value assigned to 8,500 shares of capital stock, issued as partial payment for the outstanding capital stock of Widmann & Teah, Inc., over amount of $5.00 per share assigned to stated capital			120,831.63
Balance at June 30, 1945			$ 256,647.07
EARNED SURPLUS			
Balance at July 1, 1944		$ 920,906.26	
Net profit for year ended June 30, 1945		163,407.20	
		$1,084,313.46	
Deduct:			
Cash dividends:			
$.25 a share paid Oct. 2, 1944	$ 22,500.00		
.25 a share paid Jan. 2, 1945	22,500.00		
.25 a share paid Apr. 2, 1945	22,500.00		
.25 a share paid July 2, 1945	22,500.00A	$ 90,000.00	
Reduction in carrying amounts of investments in subsidiaries, acquired during the year, to equity in net tangible assets shown by accounts of subsidiaries at dates of acquisition		272,768.05	
		$ 362,768.05	
BALANCE AT JUNE 30, 1945			$ 721,545.41
TOTAL SURPLUS AT JUNE 30, 1945			$ 978,192.48

Note A—Cash dividend of $.25 a share was declared on stock of record at June 20, 1945, payable July 2, 1945. Prior to June 30, 1945, the Company deposited funds with the dividend disbursing agent for payment of such dividend.

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc. (name changed August 13, 1945, from Weinberger Drug Stores, Inc.), and its subsidiaries as of June 30, 1945, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of the Company and its subsidiaries at June 30, 1945, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 23, 1945